

POLICY BRIEF:

RECOMMENDATIONS FOR BANKING IN LOS ANGELES' LATINO MARKET



Los Angeles is one of the largest economies in the world, yet when it comes to something as important as banking, there are still many who are underserved in our communities:

THE LATINO POPULATION.

EXECUTIVE SUMMARY

In partnership with The Alliance for a Better Community (ABC), the National Association of Latino Elected Officials and the Central American Resource Center conducted a 2006–2007 study of Los Angeles County banks, to assess the range of products and services available to the Latino market. Key findings and recommendations for improving the access and affordability of financial products and services to the overall Latino market are presented. Recommendations are especially pertinent for unbanked Latinos – many of whom are often foreign born and in a low-income bracket.

KEY FINDINGS

Here are the three major findings from the study:



AFFORDABILITY

High minimum balances, monthly fees and bank fee policies deter low-income Latinos from opening bank accounts and utilizing remittance services.



IDENTIFICATION BARRIERS

The documents required to open bank accounts and access some products and services are cumbersome and substantial.



AVAILABILITY AND ACCESSIBILITY OF INNOVATIVE PRODUCTS

Only recently did a handful of financial institutions begin to offer innovative products – remittance programs like bank account-to-bank account transfer systems, and secured or prepaid credit cards for example.



WITH OVER **\$700 BILLION** IN PURCHASING POWER,

RECOMMENDATIONS

Unfortunately, neither the Latino community nor the financial industry fully understands how to access one another or take advantage of economic opportunities. This is due in part to L.A.'s changing demographics – particularly its emerging Latino market, tightening banking regulations, and a common aspiration for wealth accumulation. L.A.'s economic growth and viability depend on industry and community partnerships that redefine community investment and development. Based on the survey's findings, additional research, and interviews with policy advocates and community-based organizations in the field, we propose the following recommendations.

1. **Re-examination of bank fee policies to ensure consumer interests are considered.**
2. **Adopt and publicize more flexible identification policies.**
3. **Establish community partnerships or an Advisory Board to further the development and delivery of innovative products.**
4. **Increase the cultural sensitivity of banks by providing language appropriate services and outreach.**
5. **Create a quality ratings system. One that ranks and celebrates banks that best address the needs of Latino consumers.**
6. **Form more partnerships that promote the establishment of more Latino-oriented financial service providers.**
7. **Conduct more culturally sensitive public awareness campaigns.**
8. **Advocate for additional public investment in education. This would lead to a greater understanding in finance, business and economics, as well as financial literacy.**
9. **Encourage banks to directly partner with local schools in ways that strengthen the workforce pipeline.**



THERE HAS TO BE A BETTER BANKING SYSTEM FOR THE LATINO MARKET.

INTRODUCTION

This study examines the various products and services that banks offer existing or potential customers. It also assesses the accessibility and affordability of financial products and services to the mostly underbanked¹ and unbanked.² As noted previously, those unbanked tend to also be low-income and foreign born. **The participation of all segments of the Latino market in mainstream banking is critical to achieving economic prosperity and ultimately ensuring this community's long-term economic viability.**

Historically, “the mainstream financial services industry has largely dismissed the unbanked and underbanked sub-prime³ markets. The exception being when serving these customers helped financial institutions fulfill statutory and regulatory obligations, most notably the CRA.”⁴ However, because of the tremendous growth of the overall Latino market and economic purchasing power, banks have begun to examine how they might capture this segment. In 2005, the U.S. Census Bureau designated this consumer market as the fastest and largest growing in the U.S., – comprising 14% of the total population and a huge 47% of the population of Los Angeles County.⁵

With a national purchasing power of \$700 billion, (expected to grow to \$1 trillion by 2010),⁶ the financial needs of Latinos will increasingly result in a proliferation of financial service providers. This can be seen in the growth of the *fringe financial sector* (e.g. check cashers, pawnshops, pay-day lenders, title lenders and rent-to-own businesses) and its skyrocketing annual revenues.⁷ Banks have also responded, but are taking longer to meet consumer needs and demand.

Despite their tremendous growth and increasing economic influence, Latinos are generally under-served and have a low level of wealth and asset accumulation. Nationally, not only are half of Latinos unbanked, but they also have lower home-ownership rates, less access to brokerage services and capital, and **much lower levels of median net worth (\$11,149 compared with \$117,722 for White Americans in 2000).**⁸

RESEARCH DESIGN

The policy brief focuses on three financial products and services identified by the partnership as highly demanded by the Latino customer, particularly in the immigrant, market: **1) check cashing; 2) checking accounts; and 3) remittance programs and wire transfer services.**

We first compiled an initial list of potential banks from various internet searches and local telephone directories. After restricting our sample to banks with five or more branches located in Los Angeles County, 22 banks (commercial, ethnic owned/serving and mid- to larger-sized) were interviewed for the study.

The telephone survey included closed and open ended questions that focused on bank services, products, fees, and identification requirements to access products and services.⁹ We interviewed 22 account representatives (one at each randomly selected branch).

FINDINGS

We found three major challenges to meeting the financial needs of the Latino market.

FIRST

Many products and services are not affordable – in particular, opening a checking account and/or sending remittances.

SECOND

Banks have identification requirements that many Latino immigrants cannot fulfill or find great difficulty meeting.

THIRD

A full range of innovative banking products and services is not being provided by banks to capture the Latino market.



AFFORDABILITY

Check cashing appears to be the most affordable of all services. Most banks surveyed (73%) do not charge non-account holders a fee to cash checks drawn on that particular bank. Banks do not cash checks drawn on other banks for non-customers – further contributing to individuals frequenting fringe financial businesses (e.g. liquor stores, local markets or national check cashing chains.) These businesses charge a percentage of the check amount,¹⁰ typically 1.5% to 3.5%, reducing the consumer's take-home amount.

On average, opening an account requires a minimum initial deposit and monthly minimum balance requirement. The chart below shows that more than half of the banks in this study require a minimum deposit of \$100 to open a checking account. While 45% of surveyed banks offer free checking accounts that do not require a monthly fee or a minimum balance, it is important to note that these accounts are not interest-bearing and are usually associated with higher fees for other financial products and services.

Over time, financial service providers, both traditional and fringe, have lowered their remittance fees. Before 2000, remittance costs averaged 15% of the amount transferred. Today, costs to transfer money abroad have decreased to about 5.7% on average.¹¹ A \$300 remittance to Mexico would cost about \$10-\$15 for example. Yet, the remittance fee is still a barrier for many Latinos and often includes hidden costs unknown to senders. For instance, in addition to the fee the



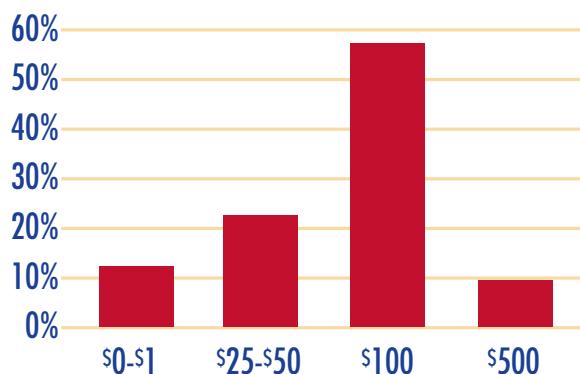
NOBODY DESERVES TO BE NICKLED AND DIMED. (ESPECIALLY THE LOWEST INCOME EARNERS.)

remitter pays to send the money, the recipient is sometimes subjected to paying a fee to collect it.

Banks charge higher fees and offer fewer innovative products than fringe financial service providers, especially money transfer agencies. Only three of the banks surveyed offer direct account-to-account remittance programs. That is, low-cost money transfers from bank accounts in the U.S. to bank accounts in specific countries (unlike wire transfer services that do not necessarily require the recipient to own a depository account.)

Overall, account holders are charged fewer fees and offered more products (e.g. lower limits on remittances) by banks. Half of the 22 surveyed banks charge account holders a flat fee of \$35 or \$40 to send money transfers. According to 18% of surveyed banks, prices typically double for non-account holders.

Percentage of Banks Requiring Minimum Deposit Amounts to Open a Basic Checking Account





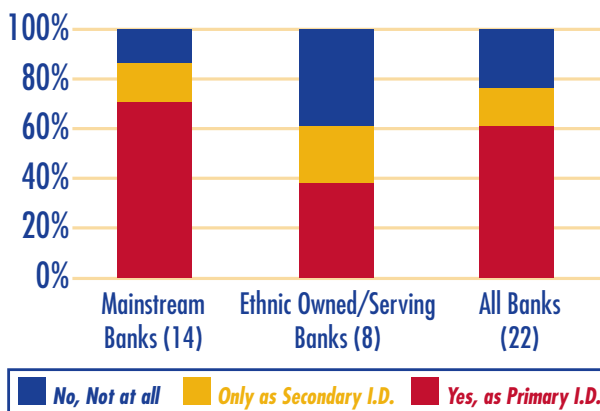
IDENTIFICATION BARRIERS

Although three-fourths of the surveyed banks offer wire transfer and check cashing services to Latinos who are not U.S. citizens, they also require non-account holders to establish a checking or savings account. Such a requirement poses a challenge for those with limited identification documents. While more costly, fringe financial service providers are more accessible to the Latino immigrants due to their flexible identification requirements.

To increase their customer base, U.S. banks and oversight agencies recently began accepting more “nontraditional” identification, such as the **Individual Tax Identification Number (ITIN)**¹², and photo identification cards issued by foreign governments known as **Consular Identification Cards**¹³. The most common form found in Los Angeles is the **Matricula Consular**¹⁴.



Percentage of Banks in L.A. County Accepting the Matricula Consular as I.D.



The chart above shows that more than half of the banks surveyed accept the **Matricula** as a primary form of identification. Notably, only 3 of the 12 banks that accept the **Matricula** as primary I.D. are ethnic owned/serving banks.

Access to services becomes severely limited when banks require additional identification and/or do not accept **Consular Identification Cards** or the **ITIN**. Only 5 of the 22 surveyed banks accept the **ITIN** as a substitution for the Social Security card. Banks that do accept the **Matricula** require customers to complete a Certificate of Foreign Status (W8 form) and/or provide a secondary identification or a Social Security card.

LATINOS NEED BETTER ACCESS AND BANKS CAN'T AFFORD NOT



AVAILABILITY AND ACCESSIBILITY OF INNOVATIVE PRODUCTS

The survey reveals that only a handful of banks have developed innovative products that specifically address the Latino market needs. These banks tend to be the larger mainstream banks as opposed to the smaller ethnic owned/serving banks. Generally, minority-owned and/or serving banks tend to be more sensitive to the needs of its ethnic consumers (fewer language and cultural barriers), thereby facilitating greater trust and more effective outreach. However, such minority-oriented banks have not successfully positioned themselves in this niche market as evidenced by the limited number of Latino-oriented banks in Los Angeles. Only one of the eight ethnic owned/serving banks selected for this study is Latino-oriented. The other seven are Asian-oriented banks.¹⁵

Remittance and wire transfer services are one of the most relevant and appealing financial products to Latinos; about 42% of foreign-born Latinos send money to their homeland on a regular basis.¹⁶ In 2003, the average remittance amount was \$321.¹⁷ It is estimated that in 2006, Mexico received \$24 billion in remittances from immigrants living in the United States.¹⁸

In response to the growing demand for remittance services, a few surveyed banks established partnerships with international money transfer operators, expanded wire-transfer outlets, and eliminated remittance fees tied to checking accounts. Three of the 22 banks surveyed have **direct account-to-account** remittance programs. These are attractive to Latinos because they are safe, convenient and affordable – costs are either free or just \$5 for account holders. Despite its popularity among customers, such remittance programs only serve three Latin countries (Mexico, Guatemala and El Salvador).

PROFILE OF LATINO REMITTERS IN THE U.S.

| | |
|----------------------------|-----|
| High school dropouts | 59% |
| Speak little or no English | 54% |
| Rent home | 72% |
| Work in low-skilled jobs | 64% |
| Don't have credit cards | 55% |
| Don't have bank accounts | 43% |

Source: "Billions in Motion: Latino Immigrants, Remittances and Banking,"
Pew Hispanic Center/Multilateral Investment Fund, 2002



TO BANKING.
TO PROVIDE IT.

RECOMMENDATIONS

Survey results show that few banks have genuinely met the needs of the Latino community. Banks should better address the needs of this underserved population by tailoring their marketing and outreach strategies, and by engaging in more innovative and affordable product development.



AFFORDABILITY

Re-examine current bank fee policies to ensure consumer interests are considered. Banks should keep monthly fees low or eliminate them and develop more transparent pricing and products – especially with annual percentage rates, non-sufficient funds (NSF) charges, fee processes and structures. Doing so would enable consumers to better access services as well as become better decision-makers and money managers.



IDENTIFICATION

Banks should revamp their identification policies and practices so potential customers can better facilitate access to formal financial services.

Moreover, banks should explore and accept more innovative forms of secondary identification (e.g. credential electoral), a major barrier to mainstream banking.

Make the application process for government-issued identification easier and more accessible. Banks should, independently or through partnerships, offer consumers information and assistance with the application for the ITIN, Consular I.D.'s, or the driver's license.



INNOVATION

Further the development of more innovative products and services by creating an Advisory Board or community partnership comprised of various stakeholders (including banks) to:

Provide insight and guide the development of innovative financial services.

Advocate for related policies, practices and products (e.g. prepaid or secured debit/credit cards which can be linked to a savings account.

Create alternative standards for measuring credit worthiness; personal, small business and mortgage loan programs and depository accounts for those without a Social Security number (to address the needs of the unbanked Latino market.) Micro-loans can particularly alleviate the financial burden of increasing fees for those seeking naturalization.

Increase the cultural sensitivity of banks.

Advocate that more banks have a diverse workforce at all levels and conduct periodic audits to ensure accountability. Targeting in-language resources (e.g. personnel, marketing materials, application and disclosures, contracts and outreach strategies) to the Latino market will increase accessibility and maximize market penetration. Periodic audits by an external evaluator will help hold banks accountable.

Promote the establishment of more Latino-oriented financial service providers that are equipped to serve the needs of Latino consumers.

Possible ventures can include partnerships between established banks and Latino-oriented organizations. One way a bank can partner with a Latino-based mortgage company, would be to create a company that provides culturally sensitive and relevant financial programs and services.



INVESTMENT LEADERSHIP: WHICH BANKS WILL STEP UP?

PRINCIPLES TO GUIDE POLICY CHANGE

The following set of principles can be used to frame policy dialogue and banking practices around addressing the needs of unbanked Latinos.

Better understanding your target population enables individuals to better understand your message.

Banks should initiate public awareness campaigns that consider the nuances, dynamics and complexities of the Latino market. Collaborating with local non-profits better ensures that outreach and marketing strategies are culturally sensitive to minority communities within the banks service area. Lastly, banks should focus campaigns on promoting financial literacy and demystifying identification requirements, bank products and financial services.

Achieving financial literacy begins with mastering basic literacy.

Investing in improved educational opportunities will more efficiently increase the financial literacy levels of consumers. Banks should advocate for and invest in more rigorous and relevant reading and math classes and programs for K-12 students. Specifically, banks ought to promote and support the transformation of several Los Angeles public schools into *Small Learning Communities*,¹⁹ particularly those transforming into Business and Finance Career Academies that infuse the concepts of banking and finance into its traditional curriculum.



Make a difference by making more personal investments.

Banks should directly collaborate with local schools by offering more innovative opportunities for valuable student-oriented work-based learning such as internships, job-shadowing, school-based enterprises, etc. and participating in curriculum development around project-based learning in economics, business and accounting classes.

Challenge banks to be better. Celebrate banks that are the best.

Create a quality ratings system to rank and celebrate banks that best serve or reach out to Latino consumers. An objective panel of evaluators should annually identify and assess best financial practices and products to:

- **Promote existing products and services that are relevant and affordable for Latino consumers**
- **Provide incentives for banks to better serve Latinos**
- **Recognize banks that provide extraordinary or innovative services and products**

THE BIGGER PICTURE

Asset and wealth accumulation in part depends on understanding and participating in the financial mainstream.

Other factors include employment, homeownership, and most importantly, educational attainment.

While many believe financial literacy is the foundation for asset building, basic literacy is a strong indicator for successful asset accumulation. One of the more promising steps to building a financially viable community is to ensure the community is educated – particularly in reading and math.

Second, many unbanked Latinos are very distrustful and fearful of formal financial institutions. Increasing the role of banks in communities could diminish negative perceptions as deeper



The road to economic prosperity can be difficult and challenging, especially for the low-income, foreign born and unbanked segments of the Latino market.

relationships are established. As a result of such investment, communities begin to feel and understand that banks care about the overall welfare of a community and not just their potential as consumers.

The road to economic prosperity can be difficult and challenging, especially for the low-income, foreign born and unbanked segments of the Latino market. It is critical for all stakeholders (private, public, non-profit) to collaborate, de-mystify and reconstruct banking culture,

practices and policies in order to change the mindset of, and better guide consumers traversing the financial mainstream. Moreover, improving the quality of life for Latinos ultimately requires investing in a higher level of basic education to fully engage them as informed consumers.



FOR LATINOS, A
DIPLOMA
IS THE START OF A
BRIGHTER BANKING FUTURE.

LATINOS HAVE THE SAME AMERICAN DREAM. THEY SHOULD BE ABLE TO SAVE FOR IT TOO.



END NOTES

- 1 Consumers who use fewer banking services compared to most Americans. Although they have checking or savings accounts at depository institutions they continue to use the fringe financial sector (check cashers, pawnshops, payday lenders and rent-to-own businesses.)
- 2 Paulson, A., Singer, A., Newberger, R., & Smith, J. (2006). Financial Access for Immigration: Lessons from Diverse Perspectives. *Federal Reserve Bank of Chicago-Brookings*
- 3 Sub-prime markets are comprised of borrowers with a less-than-perfect credit history.
- 4 National Community Investment Fund. (2005). From the Margins to the Mainstream: A Guide to Building Products and Strategies for Underbanked Markets. Center for Financial Services Innovation. http://www.cfsinnovation.com/publications.php?category_id=
- 5 US Census Bureau. <http://quickfacts.census.gov>
- 6 Malkin, E. (2004, September 22) Spanish Banks Courts Hispanic Customers in United States. *New York Times*
- 7 In 2003, study by John P. Caskey, a Swarthmore College economics professor, revealed an overwhelming increase in check cashing outlets – 1,202 in 1986 to an astounding 16,689 in 1993. Furthermore, the annual revenue of ACE Cash Express, one of the nation's largest alternative financial service providers, skyrocketed from \$26 million in 1992 to nearly \$230 million in 2002. According to a 2006 study by the Center for Responsible Lending, the payday lending industry earned more than \$28 billion annually, while costing consumers \$4.2 billion per year in fees.
- 8 Robles, B.J. (2006, March 24). Wealth Building in Latino Communities. Source: *Survey of Consumer Finances, Federal Reserve*. http://ssw.asu.edu/olp/files/NALEO_March242006_Robles.pdf
- 9 Sample survey questions include: What types of fees are associated with opening and maintaining checking accounts? Do you charge non-account holders a fee to cash checks? If so, how much? What are acceptable forms of identification to access services and products? What remittance programs and wire transfer services does the bank offer (to account holders and non-account holders?)
- 10 The fee scale for a prominent check cashing chain in Southern California is as follows: 2.10% of \$1000 or less, 2.60% of \$1000 to \$2000, 3.00% of \$2000 or above.
- 11 Said, C. (July 16, 2006). Cost of remittances strains Latinos: Sending cash to relatives back home is a process filled with fees and hassles. *San Francisco Chronicle*
- 12 The Individual Tax Identification Number (ITIN) is a tax processing number issued by the Internal Revenue Service to individuals not eligible to obtain a Social Security Number. ITINs help individuals comply with the U.S. tax laws.
- 13 A photo identification card issued by some governments (e.g. Argentina, Brazil, Ecuador, Peru, El Salvador, etc.) to help identify their citizens living in a foreign country. The cards do not certify legal residence within a country; thus, cardholders may be either legal or undocumented aliens. CID cards benefit the bearers by enabling them, in some instances, to use this form of identification to obtain driver's licenses, open bank accounts, show proof of identity to police, and gain access to other services.
- 14 A photo identification card issued by the Mexican government.
- 15 Asian-oriented banks typically do not have Spanish-language capacity at the branch level although they may be located in Latino neighborhoods.
- 16 Suro, R. (2003, November 28). Sending Home the \$30 Billion Bacon. *Miami Herald*, Pg. 1
- 17 Hernandez-Cos, R. (2005). The US-Mexico Remittance Corridor: Lessons on Shifting from Informal to Formal Transfer Systems. *World Bank Working Paper*, No. 47
- 18 Williams, K. (2006, October 19) Immigrants Sending \$45 Billion Home. *Washington Post*
- 19 Small Learning Communities are career-themed schools that simultaneously offer students academic and technical programs as well as work-based learning opportunities.

OUR GOAL IS TO
OPEN THE DOOR
TO BANKING FOR ALL LATINOS.



Alliance for a Better Community

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Alliance for a Better Community (ABC) promotes equity for Latinos in education, health, economic development and civic participation throughout the Los Angeles region. ABC's economic development efforts seek to close the income and homeownership gap of the Latino community. ABC promotes accountability of financial institutions and smart and diverse community development.